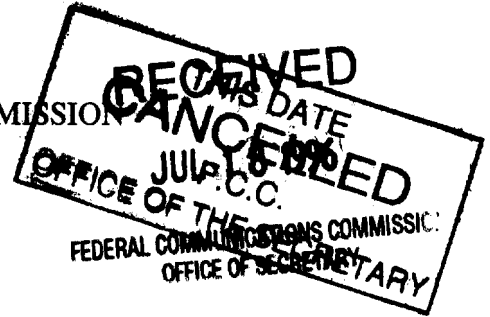


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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.



In the Matter of)

Implementation of Section 19 of the)
Cable Television Consumer Protection)
and Competition Act of 1992)

CS Docket No. 96-133

Annual Assessment of the)
Status of Competition in the)
Market for the Delivery of)
Video Programming)

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COMMENTS OF DIRECTV, INC.

DIRECTV, Inc. ("DIRECTV") hereby submits the following comments to the Commission's Notice of Inquiry ("NOI") in the above-captioned matter.

I. OVERVIEW

DIRECTV currently provides direct broadcast satellite ("DBS") service to approximately 1.6 million customers nationwide.^{1/} Using three high-powered DBS satellites positioned at 101° W.L., DIRECTV delivers approximately 175 channels of entertainment, educational and informational programming directly to homes and businesses equipped with DIRECTV's DSS® receiving system, which features satellite dish antennas only 18 inches in diameter.

The launch of DIRECTV's DBS-1 satellite over two years ago -- the culmination of over ten years and over 750 million dollars worth of effort and investment -- inaugurated a new era in the provision of video programming to U.S. consumers.

DIRECTV, along with another DBS licensee, United States Satellite Broadcasting Co., Inc.

^{1/} DIRECTV is a DBS licensee and a wholly-owned subsidiary of DIRECTV Enterprises, Inc., which is a majority-owned subsidiary of HE Holdings, Inc. (formerly Hughes Aircraft Company), a Delaware corporation.

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("USSB"), operating on its assigned frequencies on DBS-1, continue to develop as a potentially competitive multichannel video programming distributor ("MVPD") alternatives to cable television, providing the nation's first high-powered DBS services to consumers.

DIRECTV urges the Commission to continue to foster the evolution of DBS into a competitive cable television alternative. It is clear that cable interests continue to dominate the MVPD market. The Commission itself recently agreed with the Department of Justice's characterization of local MVPD markets for the delivery of video programming as "a series of local monopolies controlled by cable operators."^{2/} And notwithstanding the emergence of cable-competitive MVPD alternatives like DBS, cable prices are once again rising sharply.^{3/}

In particular, DIRECTV urges the Commission to continue to focus carefully on the competitive issues surrounding the entry of cable providers into high-power DBS. TCI and the other major cable MSOs, first through their attempted sham transaction with Advanced Communications Corporation,^{4/} and then through efforts to obtain full-CONUS

^{2/} In the Matter of Policies and Rules for the Direct Broadcast Satellite Service, Report and Order, IB Docket No. 95-168, PP Docket No. 93-253 (released December 15, 1995), at ¶ 27 (citing DOJ Comments at 2).

^{3/} P. Farhi, Cable TV Rates Going Up Sharply; Local Increases Outpacing Inflation Despite 1992 Law, The Washington Post (May 18, 1996), at A01. The Post noted that the size of the rate hikes "appears to indicate that the cable industry isn't concerned about competition from phone companies or satellite TV providers": "Ultimately, prices don't go up because of regulations or regulators, they go up because cable companies believe they can get away with it. There's no competition to restrain them. Period." Id. (quoting Gene Kimmelman of the Consumers Union).

^{4/} See Advanced Communications Corporation v. FCC, Nos. 95-1551, 15-1560, 95-1561 (D.C. Cir. 1996).

Canadian DBS capacity,^{5/} have repeatedly attempted to transition the operations of Primestar, the medium-powered Direct-to-Home ("DTH") entity controlled by the nation's largest cable operators, to high-power DBS. It is quite clear, however, that Primestar is nothing more than an alternative distribution outlet for cable operators, and lacks the incentive to develop the DBS business or technology in a manner that will be truly competitive with cable. As Primestar's marketing department confirms: "We as Primestar are not targeting any cable customers Our prime target market is the rural market, people that are unable to get cable."^{6/}

If the Commission hopes to transition out of regulating cable rates by encouraging vigorous competition to cable via the development of competing distribution technologies, granting the Primestar MSOs unfettered entry into DBS simply makes no policy sense. As it prepares its 1996 Competition Report, DIRECTV urges the Commission to monitor closely the cable industry's attempts to protect and expand its market power, and to exercise vigorous regulatory oversight where necessary.

II. RESPONSE TO DATA REQUESTS

Set forth below are DIRECTV's responses to certain of the specific questions raised in the Commission's NOI.

^{5/} See In the Matter of TelQuest Ventures, L.L.C. and Western telecommunications, Inc., File Nos. 758-DSE-P/L-96, 759-DSE-L-96, 844-DSE-P/L-96, Report and Order (released July 15, 1996) (dismissing application of WTCI without prejudice to provide DBS service using a Canadian satellite); see also Letter from United States Department of State, Office of the U.S. Trade Representative, Department of Commerce and Department of Justice to FCC Chairman, Reed E. Hundt (July 1, 1996), at 3 (expressing concern that TCI, as the largest cable television provider in the United States, "given its market position, may have an incentive to engage in anti-competitive behavior in parts of the U.S. market" if permitted to provide high-power DBS service to the U.S. from a Canadian location).

^{6/} Farmington, New Mexico Daily Times (May 13, 1996).

(a) *DBS Subscribership*

DIRECTV's subscriber base as of the end of June, 1996, is approximately 1.6 million subscribers.

(b) *Channel Capacity and Number of Channels Offered*

DIRECTV offers over 175 channels. Approximately 65 of these are cable networks and approximately 60 more are pay-per-view channels. The balance of DIRECTV programming is made up of professional and collegiate sports channels, and several a la carte channels (e.g., the Golf Channel).

(c) *Industry Transactions*

DIRECTV announced two important strategic alliances in 1996. First, DIRECTV entered into a broad agreement with AT&T to market and distribute DIRECTV service and DSS equipment. As part of the agreement, AT&T acquired 2.5 percent of the equity in DIRECTV from Hughes for \$137.5 million. AT&T has options to increase its investment to up to 30 percent over 5 years, depending primarily on the number of new DIRECTV subscribers AT&T enrolls over specific time periods. AT&T and DIRECTV also plan to jointly develop new multimedia services for DIRECTV as part of the agreement.

DIRECTV also announced an agreement with Microsoft Corporation to enable personal computers to receive digital video programming entertainment and new interactive data services from DIRECTV. DIRECTV subscribers with a digital broadcast-enabled personal computer will be able to access all of the video programming packages currently available on DIRECTV, in addition to a new category of data services that will use the DIRECTV broadband digital transmission system. Through this system, subscribers can receive "data broadcasts," including information accompanying video broadcasts, selected

Internet content, multimedia magazines and other data subscriptions in addition to broadcasts. Microsoft is developing specifications for a new DSS decoder that can be integrated into new Microsoft Windows-95-based PCs. The specifications will also apply to upgrading certain classes of the installed base of existing multimedia computers. As part of the agreement, Microsoft became a DSS licensee through separate agreements with DIRECTV and Thomson Consumer electronics for the digital compression technology. Microsoft will work with PC manufacturers licensed by DIRECTV and Thomson to meet the specifications for DSS decoders.

Respectfully submitted,

DIRECTV, INC.

By: _____


Gary M. Epstein

James H. Barker

LATHAM & WATKINS

Suite 1300

1001 Pennsylvania Ave., N.W.

Washington, D.C. 20004

(202) 637-2200

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